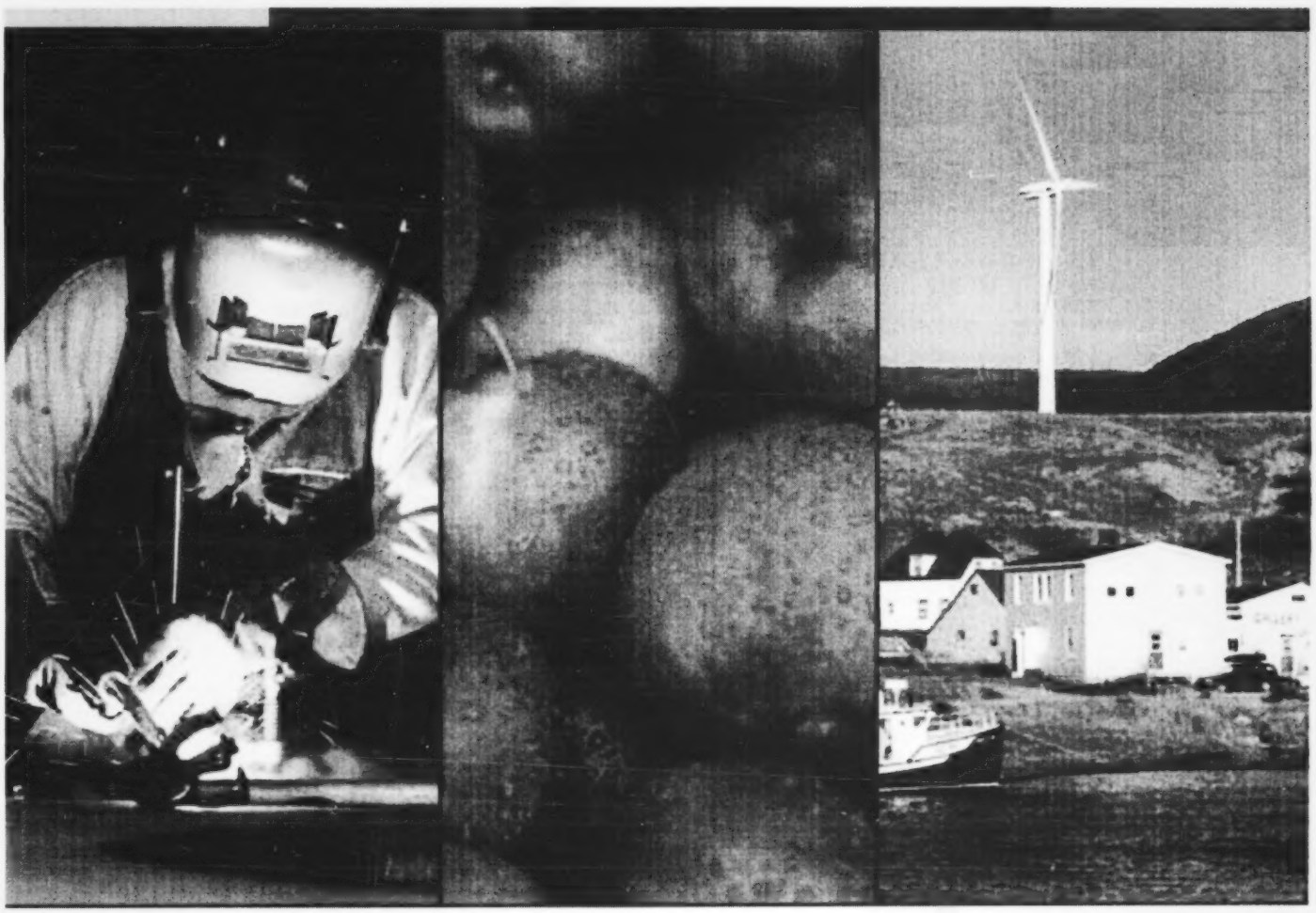
Industrial Expansion Fund
Annual Report

MARCH 31, 2005



NOVA SCOTIA
Economic Development

Industrial Expansion Fund
Annual Report

MARCH 31, 2005

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Contents

Introduction, Authority, and Administration 1

Overview of the Industrial Expansion Fund 1

Activity during the 2004–2005 Fiscal Year 4

Commentary on Current Authorizations 5

Economic Impact of IEF Activities 7

Advances, Repayments, and Interest and Guarantee Fees 8

Amounts Written Off 8

Appendix A: Evaluation Criteria for Proposals 9

Appendix B: Listing of Accounts 10

Appendix C: Audited Financial Statements 11

Introduction, Authority, and Administration

The Industrial Expansion Fund is constituted under the Industrial Development Act. The purpose of the act is to establish, assist, develop, or expand industries in the province.

The authority for the act rests with the Minister of Economic Development, subject to the approval of the Governor in Council.

Overview of the Industrial Expansion Fund

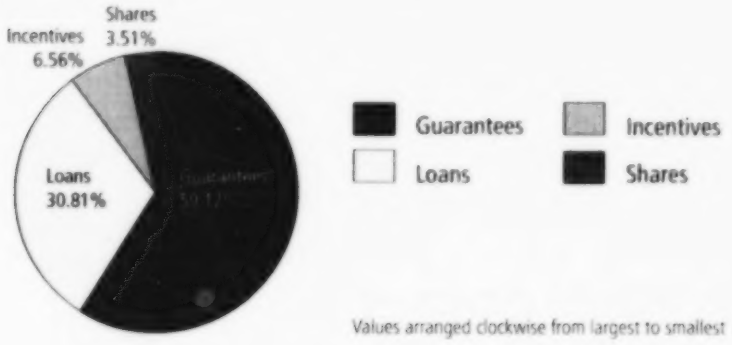
The Industrial Expansion Fund is one of the methods by which the government of Nova Scotia supports economic development in the province. The fund has considerable flexibility in the amount and type of funding it can provide. Consequently, it is frequently employed to assist the development initiatives of other departments and agencies or when the solution to a potential opportunity falls outside the financing mechanisms of those entities. The Industrial Expansion Fund also serves as a corporate funding source for broader government initiatives and policy implementation.

The Office of Economic Development administers the Industrial Expansion Fund. Nova Scotia Business Inc. provides accounting services for the fund. A staff of four from the Office of Economic Development is responsible for the day-to-day management of the fund and for assessing new proposals.

The criteria for the evaluation of proposals are attached in Appendix A. The fundamental principle behind the assessment of any proposal is whether the anticipated economic benefits associated with the transaction will exceed the anticipated costs to the Province of Nova Scotia. Staff members prepare a written assessment of a proposal that is forwarded to senior management for review and comment. Acceptable proposals are forwarded to the Minister of Economic Development in the form of a report and recommendation for presentation to and consideration by Executive Council.

Guarantees, loans, shares, and incentive agreements form the major components of the type of assistance available. Chart 1 provides an overview of the $217 million outstanding at March 31, 2005. Approximately 70 accounts make up the fund.

Chart 1: Types of Assistance (As of March 31, 2005)



Values arranged clockwise from largest to smallest

The large percentage of the portfolio allocated to guarantees comprises four large amounts:

- guarantees of $73.5 million to Irving Shipbuilding and Secunda Marine relating to offshore vessel construction
- guarantees to the Waterfront Development Corporation and the Nova Scotia Government Fund totalling $34.9 million

Chart 2 illustrates the distribution of the funding by county throughout Nova Scotia. The offshore guarantees have been omitted from the chart in that their large relative size distorts the clarity of presentation for the rest of the data.

Funding provided to clients in Halifax Regional Municipality (HRM) makes up about 20 per cent of the portfolio. The largest component of the 15 accounts in HRM is $15.5 million provided to the Waterfront Development Corporation.

Chart 2: Distribution of Portfolio (As of March 31, 2005) (Offshore Guarantees Omitted)

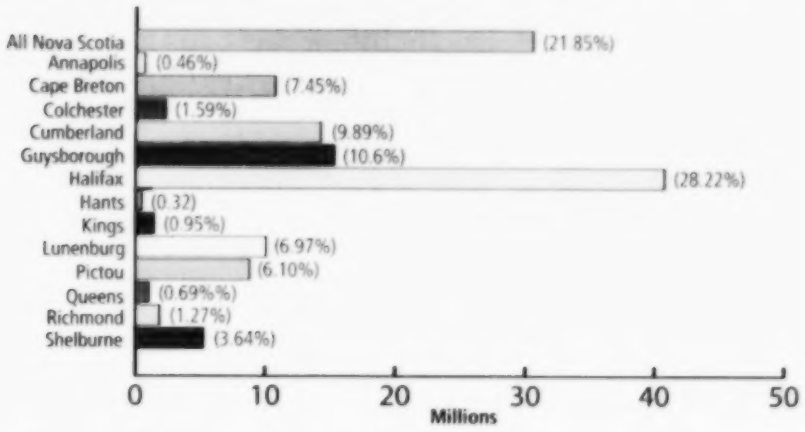


Chart 3 shows the sectors to which funding has been delivered. Manufacturing (onshore and offshore) represents the largest sector, followed by funding to government entities and processing.

Chart 3: Funding by Sector (As of March 31, 2005)

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Chart 1: Types of Assistance (As of March 31, 2005)

The large percentage of the portfolio allocated to guarantees comprises four large amounts:

- guarantees of $73.5 million to Irving Shipbuilding and Secunda Marine relating to offshore vessel construction
- guarantees to the Waterfront Development Corporation and the Nova Scotia Government Fund totalling $54.9 million

Chart 2 illustrates the distribution of the funding by county throughout Nova Scotia. The offshore guarantees have been omitted from the chart in that their large relative size distorts the clarity of presentation for the rest of the data.

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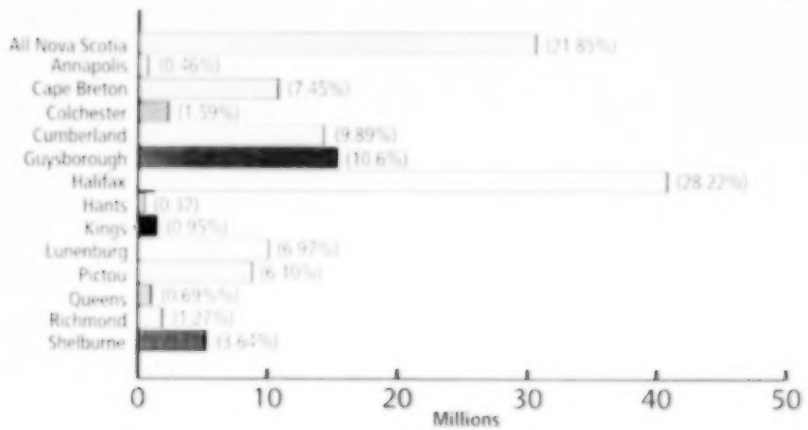

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Chart 3: Funding by Sector (As of March 31, 2005)

Activity during the 2004–2005 Fiscal Year

During the year 16 initiatives totalling $26.4 million received authorization for funding. The following table details the recipient, funding amount, type of funding, location of the business, and the purpose for which the financing was provided.

Summary of Financial Assistance

Company	Authorized Amount	Type	Location (County)	Purpose
A. Lassonde (Great Valley Juices)	$500,000	Innovation incentive	Kentville, Kings	Equipment for new production
TrentonWorks Limited	—	Release of security	Trenton, Pictou	Assist with purchase of forge by new owner
E&M Burgess Enterprises	$200,000	Loan	Newport Station, Hants	Buildings and equipment
Frito Lay	$500,000	Innovation incentive	New Minas, Kings	Equipment expansion
Oxford Frozen Foods	$10,000,000	Loan	Oxford, Cumberland	Inventory funding
Blue Wave Seafoods	$1,000,000	Incentive	Port Mouton, Queens	Continuation of funding agreement
Bowlby Quality Meats	$200,000	Innovation incentive	Greenwood, Kings	Plant expansion
C-Vision	$900,000	Innovation incentive	Amherst, Cumberland	Plant expansion/ equipment
Crossley Carpets	$1,528,888	Innovation Incentive	Truro, Colchester	Relocation of new operations to Nova Scotia
Michelin	$4,000,000	Cost offsets	Bridgewater, Waterville	Equipment
DRUM!	$235,000	Royalty	Halifax, Halifax	Capital funding
Federal Gypsum	$1,000,000	Loan	Point Tupper, Richmond	Plant and equipment
Nova Scotia Boatbuilders Association	$1,500,000	Loans	Throughout Nova Scotia	Continuation of Builders Prototype Loan Program
CanJam Trading	$1,850,000	Guarantee/ loan	Dartmouth and Cape Sable	Interim financing
Composites Atlantic	$3,000,000	Equity/loan	Lunenburg, Lunenburg	Plant expansion
CGI	$1,500,000	Innovation incentive	Halifax, Halifax	Employee certifications
Total	**$26,413,888**			

Commentary on Current Authorizations

The assistance provided through the Industrial Expansion Fund reflects a diversity of both location and sector. Cumberland County received the largest portion of funding in 2004–2005 due to opportunities presented by Oxford Frozen Foods, a world-class food processor, as well as C-Vision, a manufacturer of advanced circuit boards. Elsewhere, funding was approved to Michelin, the world's leading tire manufacturer, for new investments in its plants in Bridgewater and Waterville. Further investment was authorized for Composites Atlantic, a Lunenburg-based manufacturer of high-tech composite material and a company owned by the Airbus group, to expand its facilities as a result of increasing business opportunities in the aerospace sector. Nova Scotia presented the best business case for the relocation of a plant from California to be integrated into the Crossley Carpet Limited operations in Truro. The IEF assisted Nova Scotia Business Inc. in its successful attraction of the major IT client CGI.

Overall, there was focus on manufacturing and processing industries, most of which were located in rural areas of the province. Manufacturing industries pay better-than-average wages and produce a significant number of indirect and spin-off employment opportunities in their local communities. Chart 4 shows the distribution by sector.

Chart 4: 2004–2005 Assistance by Sector

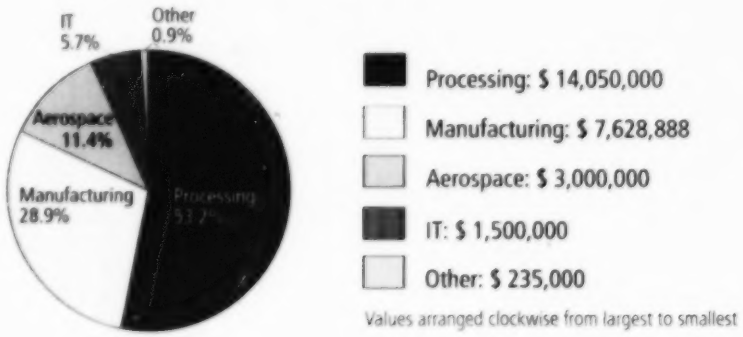

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Chart 4: 2004–2005 Assistance by Sector

The distribution of assistance by county depends on the opportunities available in any one year. Chart 5 shows the distribution for fiscal 2004–2005. During the year, Cumberland County received 41 per cent of the funding, due to the large investment in Oxford Frozen Foods. Lunenburg followed, with investments in expansions at both Composites Atlantic and Michelin.

Chart 5: 2004–2005 Assistance by County

The distribution of assistance by county depends on the opportunities available in any one year. Chart 5 shows the distribution for fiscal 2004–2005. During the year, Cumberland County received 41 per cent of the funding, due to the large investment in Oxford Frozen Foods. Lunenburg followed, with investments in expansions at both Composites Atlantic and Michelin.

Chart 5: 2004–2005 Assistance by County

Economic Impact of IEF Activities

An estimate of the economic impact of the fund's activity in fiscal 2004–2005 in terms of both employment and increased revenues to the Nova Scotia government is presented below:

Impacts of Activity in 2004–2005

Incremental employment – positions created or maintained	834
New annual salaries and wages	$19.2 million
Annual new tax revenues from new jobs	$2.4 million
One-time revenues from construction	$1.7 million

Each transaction entered into by the fund is evaluated from an economic benefit perspective to ensure that the forecast benefits received by the government exceed the costs. The evaluation is performed by using a summary economic impact assessment method to measure the income to the government from direct tax revenues, which is compared to the possible costs of the transaction. The criteria employed in examining an investment opportunity for the Industrial Expansion Fund are attached in Appendix A.

The table reports on the outcomes of the year's activity in absolute terms.

The internal rate of return on investments of the fund compared with the government's cost of funds and the absolute benefits received to costs incurred are widely used techniques and are appropriate measures in these circumstances.

If an investment can be made that generates a return greater than the cost of the funds used to make this investment, then this investment is financially beneficial. An analysis of the internal rate of return on the investments entered into by the fund during fiscal 2005 indicates a rate of return of 16.5 per cent. Given that the cost of funds for government is in the 4 per cent to 6 per cent range, the fund activities generate a return of about three times the cost on the direct benefits alone.

Employing the benefits-to-costs method, the government would receive back in direct and indirect tax revenues about $2.50 for every dollar advanced. This benefit-to-cost ratio is in the range of and similar to measures reported in other jurisdictions by development agencies.

Advances, Repayments, and Interest and Guarantee Fees

During the year advances from the fund totalled $9.6 million, and repayments totalled $3.6 million. Interest income earned was $1.6 million, and guarantee fees were $712,000.

Amounts Written off

During the year, $1.6 million in funding was written off. Amounts written off include both incentives earned for performance under development agreements and bad debts. The largest portion of amounts written off, $1.4 million, related to companies earning incentives. Earned incentives are when a company achieves job creation targets.

Incentives Earned – Fiscal 2005

Company	Write-off	Explanation
Keane	$1,250,000	Earned incentive
Polysteel Atlantic	153,185	Earned incentive
Total	**$1,403,185**	

Bad Debts – Fiscal 2005

Company	Write-off	Explanation
Britex	$58,825	Unrecoverable receivership costs
Yarmouth Golf Club	180,000	Negotiated settlement
Total	**$238,825**	

Appendix A: Evaluation Criteria for Proposals

1. Eligibility

Determine eligibility under the Industrial Development Act and operating policies or if the request should be forwarded to another agency to consider: e.g., NSBI, Farm and Fisheries Loan Board, ACOA, InNOVAcorp, Film Development Corporation

2. Information requested

As relevant, depending on circumstances:

- cash flow projections
- financial statements
- business plan
- CVs of key personnel
- information on markets, products
- Other as determined

3. Evaluation process

The following areas are considered:

- management background, experience and capability
- operating and financial history
- potential markets
- reasonableness of financial projections in light of above factors
- nature and level of shareholder investment and commitment, including willingness to provide personal guarantees
- adequacy of underlying security to support loan
- economic benefits to province
- risk versus rewards of transaction
- development considerations: rural versus urban, Cape Breton location, targeted sectors, export versus domestic
- recommendation of outside parties regarding specific information; e.g, banking references, provincial departments with knowledge of industry and company, consultants engaged
- co-investment by other development agencies, shareholders, financial institution

Appendix B: Listing of Accounts

Loans and Incentives Authorized

4everSports Inc.
A. Lassonde Inc.
Advance Laboratories
Waterfront Development Corporation
Blue Wave Seafoods
Bowlby Quality Meats Limited
Britex Group Limited
C-Vision Limited
CanJam Trading Limited
CGI Group, Inc.
Cherubini Metal Works
Co-Op Atlantic Limited
Co-Op Atlantic Limited
Composites Atlantic
Crossley Carpet Mills
Doppelganger Canso
DRUM (Music Industry of Nova Scotia)
E & M Burgess Enterprises
Federal Gypsum Company
Frito Lay Canada
GFS Canada Company
IMP Group International Limited
IMP Group Limited
Irving Shipbuilding Inc.
Keane Canada Inc.
Laurentian Energy Limited
Lunenburg County Shipwrights
MacDonald Peat Moss
Michelin North America (Canada) Limited
Nova Scotia Boat Builders
Orenda Recip Inc.
Oxford Frozen Foods Limited
Polysteel Atlantic Limited
Rafes Construction
Rosedale Farms Limited
Sable Fish Packers Limited
Scotian Halibut Limited
Seafreeze Foods Inc.
Seagull Pewter & Silversmiths Limited
Strait Of Canso Superport Limited
Superport Marine Services Ltd.
TIM Dealers Services
Weavexx Corporation
Xerox Canada Ltd.
YachtSmiths International
Yarmouth Golf and Country

Shares

ACF Equity Atlantic Limited
Composites Atlantic Limited
Ventures Corporation Funds (non-active)
N.P.V. Investments Limited
RCR Investment Limited
Vencorp Limited
Oxford Ventures Limited

Guarantees

Harbourfront Development Limited
CanJam Trading Limited
Credit Union Central
HRDA Enterprises
Irving Shipbuilding Inc.
Mactara Limited
Nova Scotia Government Fund
Secunda Marine
TD Bank Guarantee Program
TrentonWorks Limited
Waterfront Development Corporation

Appendix C:
Audited Financial Statements

Province of Nova Scotia
Industrial Expansion Fund
Financial Statements

March 31, 2005

Contents

Auditors' Report 12

Balance Sheet 13

Statement of Continuity of Fund 14

Notes to the Financial Statements 15

Auditors' Report

To the Members of the
Legislative Assembly of Nova Scotia; and

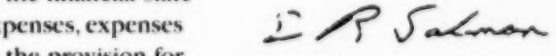
To the Minister of Economic Development

I have audited the balance sheet of the Industrial Expansion Fund as at March 31, 2005, and the statements of continuity of fund for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the over financial statement presentation.

As outlined in note 2 to the financial statements, administrative expenses, expenses related to the change in the provision for possible losses on assistance and possible payments on guarantees, revenues earned on guarantees, accrued loan interest, and interest and other income earned on loans are not reflected in the financial statements of the Fund. Furthermore, a statement of cash flows is not provided and payments receivable within one year are not segregated and classified as current assets in the financial statements. In addition, these financial statements reflect proposed write-offs of assistance outstanding of $238,825, which as of June 7, 2005, had not be approved by the Governor in Council, as required under Section 23 of the Provincial Finance Act.

In my opinion, except for the effects, if any, of the failure to record or disclose the matters as described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2005 and the continuity of fund for the year then ended in accordance with Canadian generally accepted accounting principles.



E. R. Salmon
Auditor General

Halifax, Nova Scotia
June 7, 2005

Balance Sheet

March 31	2005	2004
Assets	(in thousands)	
Financial assets, at cost		
Loans – Industrial Development Act	$70,375	$49,507
Loans – Venture Corporations Act (Note 4)	809	809
Royalty rights (Note 5)	257	276
Shares (Note 6)	6,632	8,394
	78,073	58,986
Less: Provision for concessionary assistance (Note 7)	26,450	22,159
Allowance for doubtful accounts	7,745	5,743
	34,195	27,902
	43,878	31,084
Due from consolidated fund		
Guarantees (Note 8)	128,595	158,661
Less: Provision for payment under guarantees	300	766
	128,295	157,895
Assistance authorized but unadvanced	10,863	10,321
	139,158	168,216
	$183,036	$199,300
Funding Authorized and Committed		
Authorized, net of write-offs		
Industrial Development Act	$258,239	$259,881
Venture Corporations Act	4,408	4,408
	262,647	264,289
Less: Provision for concessionary assistance and possible losses on assistance (Note 9)	34,495	28,668
Net fund balance	228,152	235,621
Less: Uncommitted balance of fund	45,116	36,321
	$183,036	$199,300

Contingencies (Note 10)

On behalf of the Fund:

See accompanying notes to the financial statements.

Statement of Continuity of Fund Under the Industrial Development Act

March 31	2005	2004
	(in thousands)	
Balance, beginning of year	$259,881	$269,683
Deduct: Accounts written off	1,642	9,802
Balance, end of year	$258,239	$259,881
Comprising:		
Loans receivable, shares, rights and other assets	$77,264	$58,177
Guarantees in effect and utilized	83,059	136,346
Loans and other investments authorized but unadvanced and guarantees in effect but not utilized	56,399	32,636
Uncommitted balance	41,517	32,722
	$258,239	$259,881

Statement of Continuity of Fund Under the Venture Corporations Act

March 31	2005	2004
	(in thousands)	
Balance, beginning of year	$4,408	$4,408
Deduct: Accounts written off	–	–
	$4,408	$4,408
Comprising:		
Loans advanced	$809	$809
Uncommitted balance	$3,599	$3,599
	$4,408	$4,408

Notes to the Financial Statements

March 31, 2005

1. Authority

The Industrial Expansion Fund was established under the Industrial Development Act. The Fund is used for the purposes of establishing, assisting, developing or expanding industries in the Province. All assistance provided by the Fund is required to be approved by Order in Council.

Effective November 6, 2001, pursuant to Order in Council 2001-523, administrative responsibility for the Industrial Expansion Fund was assigned to Nova Scotia Business Inc., a corporation formed under the Nova Scotia Business Incorporated Act. The Fund's account and assistance management activities are performed by staff of the Office of Economic Development.

2. Accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles modified by paragraphs (a), (b), and (c) below.

Administrative Expenses and Interest Revenue

(a) Administrative expenses of the Fund and expenses relating to the change in the provision for possible losses on assistance and possible payments on guarantees are included in the accounts of the Office of Economic Development and are not reflected in the financial statements of the Fund. Revenues earned on guarantees are included in the accounts of the Office of Economic Development and are not reflected in the financial statements of the Fund. In addition, accrued loan interest is not recognized as a receivable in the financial statements of the Fund. Interest and other income earned on loans and shares is included in the accounts of the Department of Finance and are not reflected in the financial statements.

Statement of Cash Flows

(b) A statement of cash flows is not provided since disclosure in the statements of continuity of the funds and the balance sheet are considered adequate.

Current Assets

(c) Payments receivable within one year of the balance sheet date are not segregated and classified as current assets.

Provision for Concessionary Assistance

(d) The Fund provides for the effect of the decrease in valuation of certain loans and shares due to assistance being provided with concessionary terms.

Allowance for Doubtful Accounts

(e) The Fund provides for possible losses on guarantees authorized, loans receivable, shares and other assets on an item-by-item basis.

Royalty rights

(f) Royalty rights are valued at cost. The value of these rights is assessed annually by estimating the net present value of anticipated cash flows. If the carrying value of the right exceeds the net present value of future cash flows, the right is written down to the net present value.

Use of estimates

(g) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Fair values of financial instruments

The fair values of loans receivable approximate their net realizable value.

Equity investments, loan guarantees and other assets represent investments and guarantees in privately held companies. Due to the limited amount of comparable market information available it is not practical to determine the fair value of these assets.

4. Venture Corporation Act

The Venture Corporations Act was assented to June 5, 1980 and came into force January 28, 1981. This Act was enacted to provide a means of encouraging investment in small businesses in Nova Scotia.

A company that qualifies as a venture corporation may receive loans under this Act. Loan proceeds must be used to purchase shares or grant unsecured loans to eligible small businesses. Principal repayments and accrual of interest are not required to commence until the tenth anniversary of such loans.

The Act directs that money provided shall be financial assistance within the meaning of the Industrial Development Act, and payments made pursuant to the Act shall be made out of the Industrial Expansion Fund.

During the year no payments (2004 - NIL) were received.

	2005	2004
	(in thousands)	
Loans made to venture corporations	$809	$809
Less: Allowance for doubtful accounts	809	809
	$ –	$ –

5. Royalty rights

Certain investments of the Fund are royalty agreements that provide a return in the form of royalty payments. The royalty payments are based upon net sales of the companies.

6. Shares

	2005	2004
	(in thousands)	
Preferred shares	$3,000	$4,762
Common shares	3,632	3,632
	$6,632	$8,394

Shares are recorded at cost. Any provision for the decline of fair market value below the cost of shares has been included in the allowance for doubtful accounts.

7. Provision for concessionary assistance

The provision for concessionary assistance is the difference between the net present value at year end of the anticipated future repayments to be received by the Fund and the amount of assistance advanced to an economic entity on the usual established commercial terms of the Fund.

The terms of concessionary assistance through the Fund include low interest rates, extended repayment terms and forgiveness clauses. This assistance is recorded at cost and reduced by the Provision for Concessionary Assistance. Any adjustments to or recovery of the net present value of this assistance in subsequent years is reflected in the Provision for Concessionary Assistance. The assistance outstanding, provision for concessionary assistance and net book value related to each of loans and shares is as follows:

			2005	2004
(in thousands)				
	Assistance Outstanding	**Provision for Concessionary Assistance**	**Net Book Value**	Net Book Value
Loans	**$35,760**	**$26,450**	**$9,310**	$8,530
Shares	–	–	–	1,863
	35,760	**26,450**	**9,310**	**10,393**

8. Guarantees

	2005	2004
	(in thousands)	
Guarantees – in effect and utilized	**$83,059**	$136,346
Guarantees – in effect but not utilized	**45,536**	22,315
	$128,595	$158,661

9. Provision for concessionary assistance and possible losses on assistance

The following is a continuity of the provision:

	2005	2004
	(in thousands)	
Balance, beginning of year	**$28,668**	$33,945
Add current year provision	**7,469**	4,525
Less accounts written off	**1,642**	9,802
Balance, end of year	**$34,495**	$28,668

10. Contingencies

The Fund has entered into agreements which provide for the funding of expenditures incurred by third parties in respect of environmental remediation of contaminated sites. Estimates of the amount of future costs, if any, under these agreements cannot be made with any certainty and are not reflected in the financial statements.

11. Related party transactions

The Fund had the following transactions with related parties in addition to those disclosed elsewhere in these financial statements:

(a) The Industrial Expansion Fund provided a guarantee in the amount of $20,400,000 to the Nova Scotia Government Fund. At March 31, 2005, the Nova Scotia Government Fund had utilized $9,000,000 (2004—$18,200,000) in accordance with this guarantee. The guarantee has been provided on terms and conditions that would be similar to those of non-related parties.

(b) The Fund enters into transactions with other government departments, agencies and corporations in the normal course of operations and on terms and conditions that would be similar to those of non-related parties.

12. Credit risk

Credit risk is the risk that a debtor may not pay amounts owing, thus resulting in a loss. To mitigate this risk, the Fund regularly monitors entities to whom financial assistance has been provided. In addition to its regular monitoring procedures, at year-end, management performed an analysis of a number of accounts in order to assess the Fund's total exposure to credit and other risks. Factors such as the financial condition of the client were evaluated to determine how risk has changed since inception of the financial assistance, or the last analysis. Changes in risk are reflected in the carrying value of the assistance via the provision for concessionary assistance, the allowance for doubtful accounts and the provision for payment under guarantees.